HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

AUTUMN 2003

Metro Victoria

2004 at a Glance

- ***Victoria's housing markets buoyant***
- ***Resale market sales steady, prices higher***
- ***New homebuilding strong - both singles and multis***
- ***Rental markets remain tight***
- ***New condo and new house markets balanced***
- ***More new lots in CRD, but lot prices trending up***

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RESALE MARKET

Sales steady, prices up

MLS®[1] sales volumes for Metro Victoria will remain at **strong levels in 2004**. This year will see steady single family house sales. Condo apartment and townhouse sales will surpass 1997-2002 levels by a large margin.

Annual average house prices are forecast to exceed $339,000 in 2004, a record high for Victoria. Average prices for all home types are on the rise, with condo apartments leading the pace in 2004 as more new suites come on stream.

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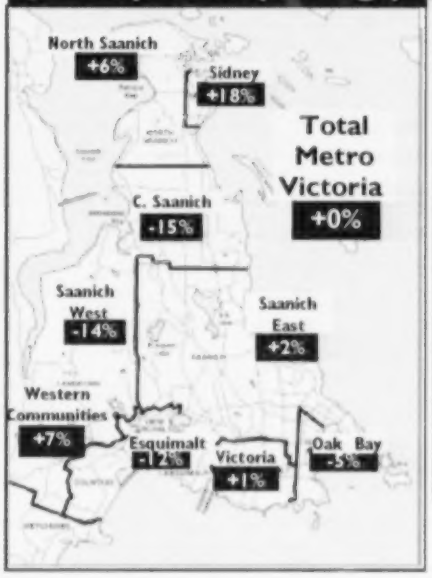
House Sales by Sub-market, Jan.-Sep. 02-03 (%change)



[1]Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

Peggy Prill (250) 363-8045
CMHC Victoria - Market Analysis Fax: (250) 995-2640
Website: www.cmhc.ca

CMHC SCHL

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Resale Market ...continued from page 1

Single family home sales are forecast to reach 4,380 in 2004, close to the 4,470 deals expected in 2003. Condo **apartment and townhouse sales will keep rising**, to a forecast 1650 apartment and 710 townhouse transactions in 2004.

Single family house average prices will edge up 4.3% in 2004 on the heels of a whopping 16% increase this year. Buyer activity is heating up in all house types during 2003-04, **fueling broad-based price increases**.

MLS® House Sales by Market

3rd Quarter 2003, Metro Victoria

	Average House Price	Average Days to Sell	Average Size Sq. Ft.
Victoria City	$296,489	28	1,723
Oak Bay	$488,732	29	2,265
Esquimalt	$240,712	37	1,598
Saanich East	$356,379	29	2,256
Saanich West	$286,057	36	1,853
Central Saanich	$335,612	34	2,072
North Saanich	$440,573	46	2,560
Sidney	$259,072	39	1,782
Western Communities	$287,561	45	1,981

Source: Victoria Real Estate Board, CMHC Victoria

Metro Victoria 2003 **single family home sales are equal to** last year's levels, for the first nine months of the year. Last year saw a 7% growth in sales. This year, sales growth leaders are **Sidney** (18%), the **Western Communities** (7%), **and North Saanich** (6%). **Saanich West** (-14%) and **Central Saanich** (-15%) lag behind.

The average selling price of a **single family home** in Metro Victoria is forecast at $339,000 in 2004, up from $325,000 in 2003. **Prices are continuing the uptrend which began in early 2001** when demand for homes began to escalate, and rising sales drew down the number of active listings on the market.

Single family home listings remain low, putting steady upward pressure on prices. Low interest rates and rising consumer spending on housing maintain strong market demand. The market continues to favour sellers. The **sellers' market is expected to remain through mid 2004**.

Year-to-date 2003 figures show an **exceptional sales-to-active listings ratio** for single family homes, just above 50% this fall. Houses are taking an average of 40 days to sell, down from 44 last year. Listings are down 3%, and the average sale price is up 14%. These **market indicators** show the single family house market currently favours sellers, and is not expected to return to balanced conditions until late 2004.

Esquimalt Houses Least Expensive in Victoria

Esquimalt remained the most affordable Metro Victoria market in the first nine months of 2003, with an average house price of $240,712.

Sidney, Saanich West and the **Western Communities** were close behind, at $259,072-286,057. **Victoria City** was the only other area with average prices below $300,000.

Oak Bay and **North Saanich** continued to lead the **trade-up market**, with average prices of $488,732 and $440,573. **Saanich East** and **Central Saanich** averaged $356,379 and $335,612.

Condo Markets Continue Recovery in 2004

Metro Victoria's **townhouse sales dipped** in 2002 but will rebound to new highs in 2003-4. Average townhouse **prices continue to climb,** and are expected to surpass $255,000 next year. The market has favoured sellers since mid 2002, following four years of buyers' market conditions. During the first nine months of 2003, sales rose 28%, matched by active listings, and average prices rose 16%. The low number of listings and steady demand is putting **strong upward pressure on prices** this year and next.

Metro Victoria's apartment condominium sales are forecast to continue growing through 2004. Condo sales recorded **exceptional strength in 2001-2**, following the snail's pace experienced during 1999-2000. Buyers outnumber sellers, therefore the **apartment condo market favours sellers**. Average price uptrends are projected to persist through 2004 while buyers will be able to choose from a **limited selection** of existing suites but growing selection of new suites.

MLS® SALES

METRO VICTORIA

Mortgage Carrying Costs Rising

Higher single family house prices and rising interest rates mean record high **qualifying incomes** for purchasing a home next year. In 2003, qualifying income needed for average-priced homes **will shoot up to a new high of $82,268**, just over the previous high of $81,946 set in 1994.

Fewer households will qualify to purchase homes in 2004, as both interest rates and home prices rise. Metro Victoria qualifying income calculations are based on actual interest rates, MLS® average house prices to 2002 and CMHC forecasts for 2003-04 (see back page for details). ❖

Visit **www.housingaffordability.ca** for the latest on getting housing to market more affordably in B.C.'s Capital Region. **Housing Affordability Partnership** (**HAP**) is a cross-sectoral group working to highlight awareness of emerging housing issues and opportunities.

Contact **Lee F. King**, CMHC's Corporate Representative, for more details. (250) 363-8050 lking@cmhc.ca

NEW HOME MARKET

Strong Demand Pushes New Home Market Ahead

New homebuilding **is pushing ahead in all sectors during 2003-04,** expanding the recovery begun in 2001-02. **Ownership housing will continue to dominate Victoria new home markets,** as it has since 2001 when a jump in rental construction led the pace.

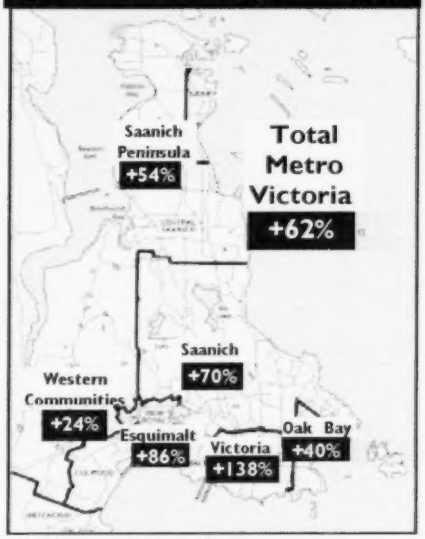
Interest from move-up and trade-down buyers will stay strong through 2004 as sales prospects for their current homes improve with strong resale market activity. Fewer **first-time buyers will be active** in the new home market as interest rates and prices rise. A growing selection of new condos will attract **investors** looking to rent units out.

CMHC forecasts **2100 new home starts for Metro Victoria during 2004**. This year, a total of 1990 new homes are expected to break ground, up 48% from 1344 in 2002. Metro Victoria's improved levels of construction are now **surpassing the B.C. homebuilding recovery**.

New House Market Growing

New single family house starts are forecast to **exceed 950 annually in 2003-04** as strong demand for new houses continues. Last year, new house building rose 39% to 879. Single detached housebuilding is 2% ahead of last year's levels, in the first nine months of 2003. This year, demand for new houses will be boosted by **rising consumer confidence, strong resale market sales, employment growth, steady price increases** and **low interest rates**.

New Housing Starts, Jan.-Sep. 02-03 (%change)



The new **house market will remain balanced through the end of 2004,** as supply keeps pace with demand. **Inventories will edge up** although most new houses are sold before or during construction. The market share of speculative building is growing. **High lot costs, rising development fees** and **financing restrictions** remain barriers.

This year, the **Western Communities** will again capture Metro Victoria's **largest market share of new house starts** taking over half of the total (up from 48% market share in 2002). **Saanich** is the strongest single municipality, with over one-quarter of all new housebuilding, followed by **Langford**, with 18%. Major subdivisions are under development in **Sooke**, **View Royal**, **Langford**, **Colwood**, and **Saanich** - several with multi-year buildouts.

New House Prices Reach New Highs

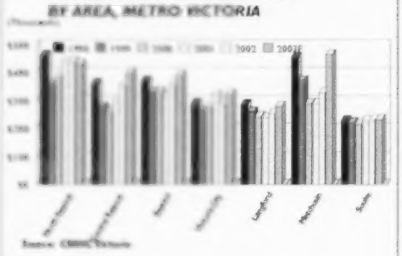
Strong demand and higher building costs are **pushing new house prices up.** This year, the median new house price will shoot 14% ahead of 2002 levels and a further **5% increase is expected for 2004**. Median prices will eclipse 1998's previous high of $325,000.

Construction of **modest houses** in **View Royal, Langford, Colwood** and **Sooke** is **helping moderate price increases**. **Saanich, North Saanich, Oak Bay** and large properties in the **Western Communities** will remain popular with the **luxury market**.

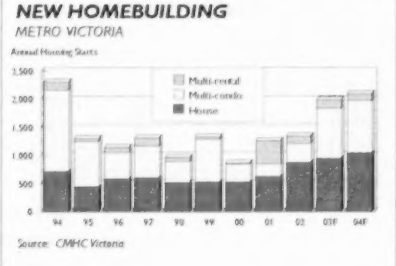
New homebuyers will have **a wide range of new houses to choose from this year,** patterned after the diverse selection available since 2000. The market for modest new homes on affordable lots is **extremely price-sensitive**, keeping sale prices in check despite rising costs.

Prices for 1½-2 storey houses will escalate in 2003-04, with a forecast median of $340,000 compared with $305,000 in 2002. **New one storey house prices are also expected to surge as more luxury retirement houses are built:** half will be priced under $320,000, up from $283,000 in 2002.

MEDIAN NEW HOUSE PRICES BY AREA, METRO VICTORIA



NEW HOMEBUILDING
METRO VICTORIA



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New Home Market.. continued from page 3

New Townhouse Market Triple 2001 Levels

New townhouse starts more than doubled last year and growth will continue at a similar pace in 2003. Over this year and next, starts are forecast at 180-185 annually; in 2002, 140 new townhouses got started.

During the first nine months of 2003, **172 townhouses broke ground,** almost triple the 60 started during the same period in 2002. This year's **new townhome inventories are rising,** at four times 2002's low levels.

New townhouse **projects continue to be held back** by **high land prices** caused by a **shortage of suitably zoned and serviced sites.** More new **townhouses are now geared to the family market**, containing three or more bedrooms - market share rose from 42% to 47% in 2001-02. This year, market share of three bedroom units is forecast at 56%.

In 2004, median **prices are forecast to rise 5% to $275,000 for a new three bedroom townhouse,** pushed higher by rising land costs and strong demand. The 2003 price trend is flat, as builders focus on affordability over luxury product this year.

New Apartment Condo Market Skyrockets

This year will see **new condo apartment starts at five times last year's level,** or 625 units. A small **additional increase is forecast for 2004**, to 660.

Ongoing demand for luxury condos and growing demand for affordable suites in convenient locations is driving building in these two dissimilar categories.

Metro Victoria new condo apartment inventories achieved a new low this fall, with just 14 completed and for sale at October 2003. However, **market conditions have recently shifted to a slight oversupply** as more condos are now under construction.

Apartment condo construction is reviving after the doldrums of the previous three years. Strong levels of apartment construction in the late 1990s, coupled with market disinterest as a result of building envelope failures, **meant demand in 2000-02 was largely satisfied from inventories of completed units.**

Apartment condo inventories reduced during the first nine months of 2003, as **92 units completed and 114 sold**. Strong demand is expected to push the current **new condo apartment market oversupply** into balanced conditions by early 2004.

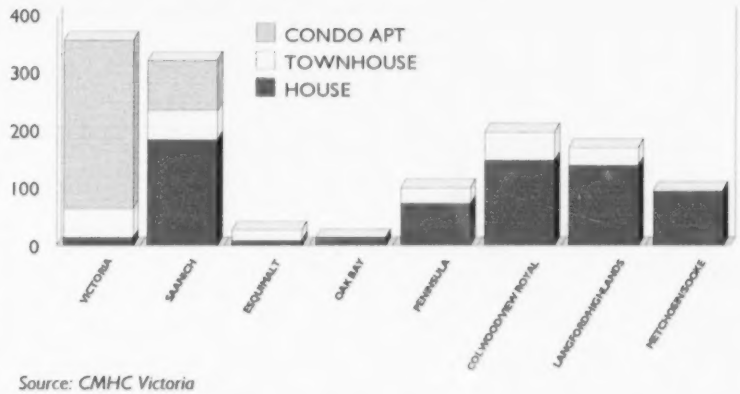
Luxury condos will again capture most of the 2003 market. **Loft style suites** and **moderate suburban suites** are growing in popularity, and will satisfy the market niche for affordable units. Two bedroom suites priced **over $220,000 are capturing the largest share** of this year's market and are expected to do well in 2004. However, $140,000 to $199,999 suites will also see strong interest over the next fourteen months.

Beginning in 2001, **market share of luxury apartments escalated** and **surpassed** mid range market share by a large margin. Condos in **prime locations** (waterfront or waterview) in urban locations led the price jump. The coming months will see shifting of that trend as **affordable** and **mid range product demand rises.**

Median new **apartment condo prices will remain flat at $255,000** in 2004 from an expected $260,000 in 2003. **Prices will be kept in check** by variations in product mix during 2003-04: a smaller proportion of luxury vs. affordable suites is expected.

Currently, new condo buyers can choose from a limited but improving selection of prices, styles and locations. Most 2004 condos will be built on **Saanich and Victoria City redevelopment sites**, while others will get underway in **Sidney**, **Esquimalt** and the **Western Communities.** ❖

NEW HOUSING STARTS BY TYPE BY AREA, METRO VICTORIA
January-September 2003



Source: CMHC Victoria

More new condos underway this year - most in Victoria City and Saanich.

Land Prices Up, Sales Steady

Single family lot **prices are rising this autumn** in Metro Victoria, while overall sales hold steady. Lot **sales are rising in the Western Communities**, but are waning in urban and Saanich Peninsula areas due to supply constraints.

The January-September 2003 median price for serviced lots included **$178,000** in **Saanich**, **$185,000 in North Saanich, $212,000 in Central Saanich**, **$115,000** in **Langford, $110,000 in Colwood** and **$146,000** in **Metchosin**.

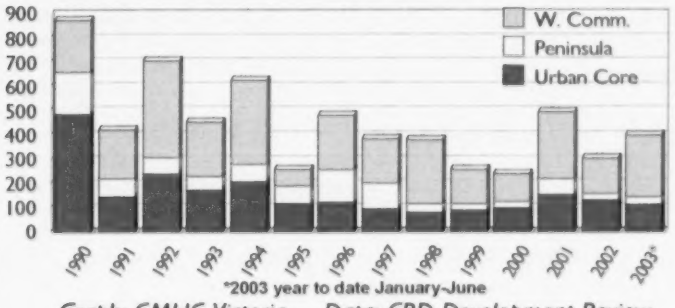
Sales of Metro Victoria **multiple land sites** remain slow, as few **new townhouse and apartment projects** get underway on land which has recently changed hands. Land prices per unit in 2003 range from $25-40,000 for apartments to $45-85,000 for townhouses.

Single family dwelling land supply is **improving this year** with additional lots created in the Capital Region; this trend will continue through 2004. The **Western Communities** remain the largest supplier of new single detached lots.

The ongoing **land shortage**, combined with high prices and financing restrictions will **continue to restrain the total supply in 2004**. Housebuilding is growing in 2003-04, and the region-wide lot supply constraint **is driving lot prices higher**. New subdivisions in **Langford, Sooke, Colwood** and **View Royal** will bring more new lots onstream in 2004. However, upward pressure on land prices **continues to erode housing affordability** as the housing market recovery unfolds. ❖

HOUSE LOT CREATION BY AREA, METRO VICTORIA

Lots Created for New Houses



Graph: CMHC Victoria Data: CRD Development Review

B.C. RENTAL MARKET TRENDS

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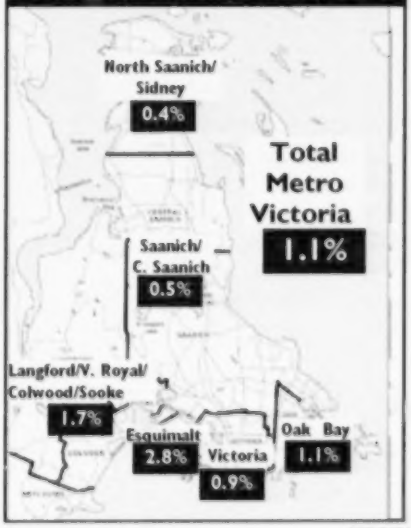
Rental Markets Remain Tight

Rental apartment vacancies are expected to nudge up in 2004. This year, vacancy rates changed little from 2002, at 1.1% compared with 1.5% last year. Average rent **increases will exceed 3% annually,** overtaking the inflation rate. Limited choice of **rental apartments** will be available in all Metro Victoria submarkets through 2004. Low vacancies and rising rents also apply to the **rental townhouse market** in 2003-04.

Market rental construction will remain a small part of new multi-family projects in 2003-04. However, a growing number of **condos will be rented** out in 2004. **Ongoing barriers to rental development** include high land costs, municipal DCC's, weak industry response to municipal incentives for affordable housing, and limited non-profit financing from government. Investors find these impediments render new rental development **unviable**, thus will pursue other opportunities such as **mixed-use, niche market, condo, or commercial projects**.

Victoria Rental Submarkets,2003
Average Apartment Vacancy Rates



Economy: Growth Continues

Metro Victoria economic growth is **tracking BC's stronger-than-expected growth** this year. Next year's growth is forecast to improve on 2003 results.

For 2004, CMHC anticipates **moderate growth** in the provincial economy, employment and **net migration**. BC interprovincial migration is forecast at a net outflow of 4,000 people in 2003, and 2,000 in 2004. This continues the improving trend from 5,337 net outflow in 2002; 8,991 in 2001 and 14,123 in 2000. **Steady international migration** (22-26,000 annually) more than offsets the loss of interprovincial migrants. Migration improvements assist **the continued rebound** of provincial housing markets.

Victoria employment is forecast to grow 1.7% this year and a further 2% in 2004 after edging up 1.9% in 2002. This year's gains are expected to be strongest in **construction, goods producing, finance, insurance** and **real estate industries,** while slow recovery will occur in **manufacturing** and **defense.** Negative growth is expected in **public administration** and **retail/wholesale trade.**

Metro Victoria's **unemployment rate** is expected to hold steady over the next 14 months, at just below 7%. Unemployment reduced to 6.6% in 2003, from last year's average of 7% . BC unemployment will track close to 8% in 2003-04.

At September 2003, the **value of major capital projects** proposed, planned or under construction in Metro Victoria totalled **$1.4 billion**, 40% more than the autumn 2002 figure. Major projects **scheduled to break ground in** 2003-04 include the **Railyards Development, Buckerfields Project, Multi-purpose arena** and **Belleville St. Terminal redevelopment.**

Developments underway with **multi-year buildouts** include **Victoria International Airport expansion, UVic Expansion, Selkirk Waterway, Sunriver Estates, Bear Mountain Golf Resort, CFB Esquimalt Improvements, Cordova Bay Road** residential and industrial complex and the **Royal Bay Project.**

The Metropolitan Victoria economy will continue to diversify and expand in 2004, with the **high technology industry** (including call centres), **education** and **film production** playing major roles. Victoria hosts **BC's second largest technology market** after Vancouver.

In 2004, the **tourism industry** is anticipated to rebound from small declines posted during 2001-03 stemming from **local transportation issues** as well as recent years' global reduction in business and discretionary travel. **Ecotourism** and **marketing alliances,** bolstered by high profile Royal BC Museum events and hotel expansions, will help drive industry sales.

This year's hotel occupancy rates are **off 1.4%** while 2002 saw a 0.5 % dip. Victoria Conference centre is seeing **5% fewer delegate days** than in 2002, after a 25% increase posted last year. Victoria International Airport travel is growing but BC Ferry Tsawwassen-Swartz Bay travel is slightly down from last year. Tourism Victoria expects **limited revenue growth** in 2004.

Metro Victoria population is forecast to hit 319,300 next year, up 0.8% over 2002's total of 316,750. In 2004, net migration to Victoria will **follow B.C. trends**, edging up to 2,350 from similar levels in 2003.

Mortgage Rates Edge Up

Mortgage rates will inch up in 2003-04, but remain low by historical standards. Expect short-term rates to move up 50-100 basis points next year. Longer term rates will vary according to the cost of raising funds in the bond market but will trend up in the second half of 2004.

One, three, and five year closed mortgage rates will increase to the 4.50-5.25, 5.75-6.50 and 6.25-7.25 per cent range, respectively.

Mortgage rate discounts will remain an important competitive instrument over the forecast horizon. ❖

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RENOVATION MARKET

RENOVATIONS ON THE RISE

Metro Victoria is seeing **more renovations underway this year** compared with 2002. Renovation values are also on the rise. Next year, both project volumes and average renovation values are forecast to improve on 2003 levels.

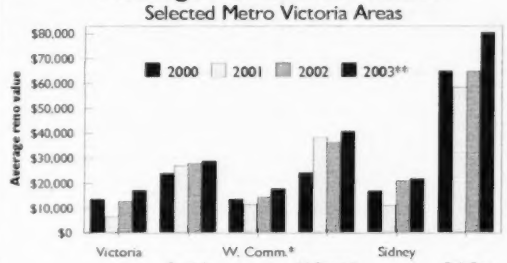
The resale market rebound is **boosting renovation activity**. Some buyers prefer to **purchase and make improvements** to existing housing instead of buying new homes. Rising renovation volumes since 2001 mean more stability in both the **construction** and **real estate** sectors. High **development and lot costs** and an **aging housing stock** are pushing renovations higher in both value and volume this decade throughout Victoria.

During the first nine months of 2003, the **number of building permits issued for residential renovations** in the **City of Victoria slipped 4% from** 2002 levels while **Saanich's** permit tally rose 7%. **Western Communities** renovation volumes held steady compared to the previous year. These three areas account for the bulk of all residential renovation permits issued in all of Metro Victoria. **Oak Bay** permit volumes increased 1% while **Esquimalt** jumped 65%. **Saanich Peninsula** permit volumes surged 25%.

January-September 2003 Metro Victoria average renovation values **climbed 23% from** 2002 levels. **Oak Bay** led area markets, with average residential renovation permit values of $80,242. **North Saanich** was next highest, at $40,760. Average permit values in **other area markets ranged from $11,353 through $32,939**.

The trend to higher renovation spending reflects **more substantial projects** and, increasingly, **rising materials and labour costs**. Current homeowners and new purchasers are renovating for **home offices, secondary suites** and **media rooms**, as well as more traditional **kitchen, bathroom, deck, basement** and **attic/additions**. ❖

Average Renovation Values
Selected Metro Victoria Areas



*Includes Colwood, Langford, Sooke, Metchosin
**2003 YTD Jan.-Sep. SOURCE: Municipal Building Permit Reports

2004 B.C. REPORTS AVAILABLE NOW!

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For further Market Analysis information **contact Peggy Prill** (250) 363-8045.

Canada Mortgage and Housing Corporation, Suite 150, 1675 Douglas Street Victoria, B.C., V8W 2G5 Telephone: (250) 363-8040 Fax: (250) 995-2640 E-mail: **pprill@cmhc.ca**
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CMHC FORECAST SUMMARY

Victoria Metropolitan Area

October 2003

RESALE MARKET	2001	2002	2003F	2004F	Chg
MLS® Listings	8,667	8,976	8,990	9,100	1.2%
MLS® Sales					
Single-family	4,090	4,430	4,470	4,380	-2.0%
Townhouse	607	584	695	710	2.2%
Condo Apartment	1,169	1,451	1,610	1,650	2.5%
TOTAL	*5,866*	*6,465*	*6,775*	*6,740*	*-0.5%*
MLS® Price					
Single-family	$259,138	$280,218	$325,000	$339,000	4.3%
Townhouse	$202,366	$212,988	$245,000	$258,000	5.3%
Condo Apartment	$137,535	$150,547	$175,000	$180,000	2.9%
NEW HOME MARKET					
Starts					
Total	1,264	1,344	1,990	2,100	5.5%
Single-family	631	879	950	1040	9.5%
Semi	63	73	85	90	5.9%
Townhouse	64	140	180	185	2.8%
Condo Apartment	85	127	625	660	5.6%
Rental	421	125	150	125	-16.7%
Complete & unoccupied (monthly average)					
Total	262	119	106	141	33.0%
Single-family & Semi	119	47	62	73	17.7%
Townhouse	19	5	20	18	-10.0%
Condo Apartment	124	67	24	50	108.3%
Median New Home Price					
Single-family	$285,350	$299,925	$341,000	$359,000	5.3%
3 Bed. Townhouse	$253,975	$265,000	$262,000	$275,000	5.0%
2 Bed. Condo Apt	$221,500	$284,250	$260,000	$255,000	-1.9%
RENTAL MARKET					
Vacancy Rate (Oct.)	0.5%	1.5%	1.1%	1.3%	
% Increase in apartment rents	2.4%	2.5%	2.5%	3.2%	
ECONOMIC OVERVIEW					
Mortgage Rate (3 yr.)	6.88%	6.28%	5.79%	6.13%	
Employment Growth	-3.5%	1.9%	1.7%	2.0%	
Net Migration	2,150	2,090	2,200	2,350	

F = CMHC Forecast

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